



THE UNDER SECRETARY OF DEFENSE

**3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010**

08 JUL 1999

**MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN, JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
DIRECTOR, DEFENSE RESEARCH AND ENGINEERING
ASSISTANT SECRETARIES OF DEFENSE
DIRECTOR, OPERATIONAL TEST AND EVALUATION
DIRECTORS, DEFENSE AGENCIES**

SUBJECT: Defense-Wide Implementation of Activity Based Management

In July 1997, as part of the National Performance Review, the Secretary of Defense established a DoD Acquisition Year 2000 Goal to:

"Define requirements and establish an implementation plan for a cost accounting system that provides routine visibility into weapon system life-cycle costs through activity based costing and management. The system must deliver timely, integrated data for management purposes to: permit understanding of total weapon system costs; provide a basis for estimating costs of future systems; and feed other tools for life cycle cost management."

On November 23, the Department's senior Acquisition, Financial, and Logistics Executives met to decide on the course of action to be pursued. It was agreed that:

Declining resources are providing significant incentives to manage better all costs;

Activity Based Costing and Management (ABC/ABM) is most appropriately pursued on a broad department-wide basis, rather than being narrowly focused on "weapon system life-cycle costs" only;

The near term need for visibility into weapon system life-cycle cost should be satisfied by improvements in the Visibility and Management of Operational and Support Costs (VAMOSOC);

The Military Department and the Defense Agencies will be responsible for developing individual implementation plans and presenting implementation status updates;

In furtherance of the above, I direct the Secretaries of the Military Departments and the Directors of the Defense Agencies to pursue aggressively ABC/M implementation in maintenance depots and everywhere else it could be expected to provide improved cost management. The Military



Departments and Defense Agencies will prepare implementation plans within 90 days of this memorandum, and the Military Departments and DLA will provide those plans to the USD(A&T) and USD(C). Acceptance of the Military Departments and DLA implementation plans will constitute completion of the NPR goal to "define requirements and establish an implementation plan." In addition, the Military Departments and DLA will prepare written status updates quarterly and also present them to USD(A&T) and USD(C)—the first update is due 90 days from the date of this memorandum. An interim written status report should be submitted to my Deputy Under Secretary for Acquisition Reform by July 27.

I further approve the VAMOSC improvements presented on November 23. The Military Departments shall aggressively pursue implementation according to the schedule presented on November 23 by the Cost Analysis Improvement Group (CAIG).



J. S. Gansler